



fifth annual report / year ending dec. 31, 1966
ALLIED TOWERS MERCHANTS LIMITED



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fifth annual report for the year ended December 31, 1966 **ALLIED TOWERS MERCHANTS LIMITED**

APR 24 1967

DIRECTORS

*Ananda-Rockette Bank
C. Dalrymple
a bank & Rockies*

WILLIAM L. ATKINSON*	C	LOUIS LOKASH	C
IRVING BECKERMAN*	C	BRYCE R. P. MACKENZIE, Q.C.	P
MYRLE W. BOOK*	C	WILLIAM MANOLSON	C
J. IAN CROOKSTON	P	ALVIN B. ROSENBERG, Q.C.	C
MAXWELL GOLDHAR	C	ROBERT M. SUTHERLAND	C
HON. SALTER A. HAYDEN, Q.C.	P	WILLIAM N. THOMPSON	C
JOSEPH L. HOCKENOS		HARVEY S. WOLFE	C
JOSEPH LOKASH*	C	RAPHAEL D. WOLFE*C	

*Members of Executive Committee

OFFICERS

Chairman of the Board	
and of the Executive Committee	WILLIAM L. ATKINSON
President and Chief Executive Officer	MYRLE W. BOOK
Controller	HUGH SIMPSON
Secretary	NORMAN J. P. MELNICK

SOLICITORS

McCarthy and McCarthy Toronto, Ontario

AUDITORS

Clarkson, Gordon & Co. Toronto, Ontario

TRANSFER AGENTS AND REGISTRAR

NATIONAL TRUST COMPANY LIMITED Toronto, Montreal,
Winnipeg and Vancouver

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE Toronto, Ontario

HEAD OFFICE

110 ORFUS ROAD, TORONTO 19, ONTARIO



DIRECTORS' REPORT

TO OUR SHAREHOLDERS

The year 1966 produced further substantial gains in sales and earnings. Continuing the trends established in 1965, the Company enjoyed a steady increase in traffic and average sale. These results were achieved through constant effort to provide customers with better values and improved merchandise assortments.

SALES

Total sales in 1966 were \$56,998,678 up \$5,418,303 or 10.5% over 1965. This increase, which compares favourably with that of total Canadian department store sales of 7.1%, was achieved with no expansion in the number or size of our stores.

Sales of Company-operated departments rose \$2,468,612 or 7.2% to \$36,855,560.

PROFITS

The net profit for the year, after provision for income taxes of \$175,000 was \$1,135,702 compared with \$737,229 in 1965 when no taxes were payable. This improvement of 54.0% in net profit and 77.8% in pre-tax profit reflects the continuing impact of the reorganization of the Company's affairs in 1964. After allowance for preference share dividends, earnings per common share were 50¢ compared with 27¢ per share in 1965.

The 1966 profit includes a rental rebate of \$100,000 pertaining to 1965.

Income taxes were reduced by approximately \$500,000 in 1966 due to the application of tax losses carried forward from previous years. It is difficult to estimate the amount of tax loss still available, since the Company is appealing assessments for the years 1963 and 1964.

OPERATIONS

To further improve our merchandise assortments and values, our buyers visited European and Oriental markets for the first time in 1966. We are now developing better selections of import merchandise at much improved profit margins. To better facilitate this activity, we established an importing agency, "Meridian Imports of Canada."

During the year we leased the furniture and appliance departments in our Ontario stores. This change has resulted in higher store sales and earnings.



FINANCIAL POSITION

Net working capital at December 31, 1966 amounted to \$4,240,720 an improvement of \$1,002,703 during the year. The current ratio is 1.97 to 1 as compared with 1.84 to 1 last year.

OUTLOOK

While the rate of economic growth in Canada has declined and retail competition is keen, we expect further sales gains in 1967. Salaries, wages, employee benefits, and most other expenses continue to rise, but earnings before taxes should show a moderate increase. However, due to sharply higher taxes, reported net profit will be lower than in 1966.

During the past two years your Management has concentrated on improving the profitability of existing operations. But if the Company is to share fully in the growth potential of mass merchandising, an expansion program must be undertaken as quickly as possible. Our major competitors, most of which are divisions of large and well-established conventional retailers, are expanding rapidly. It is obvious that expansion on a similar scale cannot be financed from our present resources and internally generated funds. The "tight money" conditions which prevailed through 1966 made it difficult to negotiate leases or mortgage financing on satisfactory terms. More recently there has been some easing in these conditions, but while planning has been underway for some time, no firm opening dates for new stores have been established.

PREFERENCE SHARE DIVIDENDS

Arrears of cumulative dividends on the 6% first preference shares amounted to \$1,189,922 or \$2.73 per share as at January 1, 1967. The question of preference share dividend policy and the related matter of the financial requirements of our planned expansion program are currently receiving careful consideration. While no decision on dividend policy has been reached, it should be noted that the position of the preference shareholder continues to improve.

APPRECIATION

Our progress in 1966 was due to many people — customers, suppliers, and particularly our employees. We extend to them our sincere appreciation.

March 17th, 1967

Jim Book
President

ALLIED TOWERS MERCHANTS LIMITED AND ITS SUBSIDIARIES

(Incorporated under the laws of Ontario)

ASSETS

	1966	1965
CURRENT:		
Cash	\$ 859,626	\$ 452,957
Marketable securities, at cost (approximate market value \$1,300,000)	1,299,258	
Trade and other accounts receivable	614,404	512,857
Merchandise inventories, at the lower of cost or market	5,433,192	5,674,483
Prepaid expenses, supplies and deposits	411,406	439,262
TOTAL CURRENT ASSETS	8,617,886	7,079,559
FIXED:		
Store equipment, at cost	2,259,276	2,212,613
Less accumulated depreciation	966,375	740,437
	1,292,901	1,472,176
Leasehold improvements, at cost	175,988	166,850
less amortization	1,468,889	1,639,026
OTHER:		
Mortgage and note receivable	38,863	241,404
Deferred store and equipment rentals less amortization (note 1)	1,109,244	910,396
Store leases, at cost less amortization (note 2)	323,778	348,117
Federal refundable tax	19,984	
Other deferred expenses	55,796	111,204
Capital stock issue expenses	413,503	413,503
	1,961,168	2,024,624
	\$12,047,943	\$10,743,209

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1966 (with comparative figures for the year 1965)

LIABILITIES

	1966	1965
CURRENT:		
Accounts payable and accrued charges	\$ 3,388,771	\$ 3,051,428
Income and other taxes payable	550,164	264,958
Store fixture purchase contracts, portion payable within one year	169,882	248,522
Store rental deposits	68,349	76,634
Debentures payable within one year	200,000	200,000
TOTAL CURRENT LIABILITIES	4,377,166	3,841,542
Deferred equipment rentals	178,566	116,789
LONG TERM LIABILITIES (note 3):		
9% sinking fund debentures due January 2, 1970		
less portion payable within one year	600,000	800,000
Store fixture purchase contracts, payable in monthly instalments to 1969		
less portion payable within one year	248,706	414,987
	848,706	1,214,987
SHAREHOLDERS' EQUITY:		
Capital stock (note 4) —		
Authorized:		
750,000 first preference shares, par value \$10 each issuable in series		
3,000,000 common shares, no par value		
Issued:		
436,000 6% cumulative redeemable convertible first preference shares, 1962 series, par value \$10 each	4,360,000	4,360,000
1,731,516 common shares	1,843,516	1,843,516
	6,203,516	6,203,516
EARNED SURPLUS (DEFICIT)	439,989	(633,625)
	6,643,505	5,569,891
	\$12,047,943	\$10,743,209

On behalf of the Board:

M. W. BOOK,
Director

W. L. ATKINSON,
Director

See accompanying notes to consolidated financial statements

STATEMENT OF CONSOLIDATED PROFIT AND LOSS AND EARNED SURPLUS
 FOR THE YEAR ENDED DECEMBER 31, 1966 (with comparative figures for the year 1965)

	<i>1966</i>	<i>1965</i>
Net sales:		
Total store sales	\$56,998,678	\$51,580,375
Less sales of concessionaires	20,143,118	17,193,427
Net company sales	\$36,855,560	\$34,386,948
Profit on operations before deducting expenses set out below	\$ 2,209,617	\$ 1,681,781
Deduct:		
Interest on sinking fund debentures	72,000	90,000
Depreciation — store equipment	225,938	238,944
Amortization — leasehold improvements	25,488	22,025
— store and equipment rentals	400,557	401,666
— store leases	15,763	15,580
— store opening expenses	36,462	36,462
— other deferred expenses	58,072	58,072
Executive salaries	98,499	81,803
	898,915	944,552
Profit for the year before income taxes	1,310,702	737,229
Income taxes (note 5)	175,000	_____
Net profit for the year	1,135,702	737,229
Deficit, beginning of year	633,625	1,328,125
	502,077	(590,896)
Deduct income taxes re prior years	62,088	(42,729)
Earned surplus (deficit) end of year	\$ 439,989	\$ (633,625)



STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 1966 (with comparative figures for the year 1965)

	1966	1965
SOURCE OF FUNDS:		
Funds provided from operations —		
Net profit for the year	\$1,135,702	\$ 737,229
Add charges to operations not requiring an outlay of funds:		
Depreciation — store equipment	225,938	238,944
Amortization — leasehold improvements	25,488	22,025
— deferred store and equipment rentals	400,557	401,666
— store leases	15,763	15,580
— store opening expenses	36,462	
— other deferred expenses	60,670	58,072
Total funds provided from operations	1,864,118	1,509,978
Increase in deferred equipment rental	61,777	57,239
Payments on mortgage and note receivable	202,541	35,873
Store lease account refund	8,576	
	<u>2,137,012</u>	<u>1,603,090</u>
APPLICATION OF FUNDS:		
Payments for — store equipment	46,663	58,475
— leasehold improvements	34,626	48,038
— store and equipment rentals	599,405	621,987
— store leases	25,000	
— other deferred expenses	5,262	56,072
— income taxes re prior years	62,088	42,729
— federal refundable tax	19,984	
Reduction of long term liabilities:		
Debentures	200,000	200,000
Store fixture contracts	166,281	266,091
	<u>1,134,309</u>	<u>1,318,392</u>
INCREASE IN FUNDS DURING THE YEAR	1,002,703	284,698
WORKING CAPITAL, BEGINNING OF YEAR	3,238,017	2,953,319
WORKING CAPITAL, END OF YEAR	<u>\$4,240,720</u>	<u>\$3,238,017</u>





ALLIED TOWERS MERCHANTS LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1966

1. Rentals in respect of two store properties payable over a twelve year term (with an option to purchase at the completion of the term at \$1.00 each) are being amortized over a period of twenty-five years. In 1966 rental payments amounted to \$236,060 of which \$85,711 was amortized. Equipment rentals (under lease option agreements) payable over varying periods extending to 1969 are being amortized over a period of ten years. In 1966 rental payments amounted to \$363,345 of which \$314,846 was amortized.
2. Store lease costs are being amortized over a period of twenty-five years.
3. The company has issued to its bankers as collateral security to any bank indebtedness, 6% debentures which are payable on demand, secured by a first floating charge on its undertaking, property and assets. The issue is limited to \$2,000,000. The 9% sinking fund debentures are secured by a floating charge ranking after the 6% debentures referred to above. Sinking fund instalments are payable at the rate of \$200,000 per annum in the years 1967 to 1969 inclusive. Certain covenants attached to this issue require the maintenance of working capital and current assets at certain minimum levels and limit bank borrowings to \$2,000,000. Store equipment purchase contracts are payable in monthly instalments for various periods extending to 1969. Current monthly instalments of principal and interest amount to \$18,600.
4. The 6% cumulative redeemable first preference shares, 1962 series are convertible into common shares on a share for share basis to April 1, 1972. 436,000 common shares have been reserved for issue upon conversion of the outstanding 6% first preference shares. Arrears of cumulative dividends on the 6% first preference shares amount to \$1,189,922 including the dividend due January 1, 1967. In 1965, 86,000 common shares were reserved to provide for the granting of options to directors and employees, such options to be allocated by the board of directors over a ten year period. Options on 70,000 shares at \$1 each, including options for 10,000 shares granted in 1966 are outstanding at December 31, 1966 and are exercisable during the next five years.
5. Income taxes otherwise payable on the profit for the year 1966 have been reduced by approximately \$500,000 because of the carry forward for tax purposes of losses from previous years. In 1965 no income taxes were payable on the profit for the year because of the carry forward for tax purposes of losses from previous years.
6. The company has leased store and warehouse properties for periods extending to 1975. The annual rentals payable under these leases amount to approximately \$2,025,000. The annual rental payments for store equipment total approximately \$354,000.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
ALLIED TOWERS MERCHANTS LIMITED:

We have examined the consolidated balance sheet of Allied Towers Merchants Limited and its subsidiaries as at December 31, 1966 and the statements of consolidated profit and loss, earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Allied Towers Merchants Limited and its subsidiaries as at December 31, 1966 and the results of their operations and the source and application of their funds for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 1, 1967.

CLARKSON, GORDON & Co.
Chartered Accountants



ALLIED TOWERS MERCHANTS LIMITED